Guest editorial: Special post-conference section on the shadow economy, tax evasion and informal labour

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Economists have been analysing issues such as tax evasion or corruption and their relationship to the shadow economy since the late 1960s. These ongoing research efforts have contributed, among other things, to a better understanding of why such behavioural patterns occur, their extent, how they may be traced, how they can be handled and what impacts on welfare there may be over time. Over the last 30 years, much progress has been made thanks to the development of methods such as agent-based modelling and the use of experiments in economics. Tax research has also spread to other scientific disciplines, most notably psychology and sociology. The transformation of the economies in Central and Eastern Europe and former Soviet Union from centrally planned to market ones has provided new research challenges to be addressed. However, in many issues including those relating to measuring the size of the shadow economy, our knowledge is far from being perfect and many controversies still exist.

To address these shortcomings and to study the determinants and consequences of shadow economic activities and tax evasion, three economists from the University of Muenster in Germany, Sascha Hokamp, Aloys Prinz and the late Michael Pickhardt, convened a conference in 2009 that led to the series of regular biennial shadow conferences. Subsequent conferences took place in 2011 and 2013 in Muenster and in 2015 in Exeter (UK). Each conference gathered researchers working in the field of shadow economy, tax evasion, informal labour, money laundering, corruption and illegal economy to explore and discuss recent research developments. Participants came from a large number of countries, from Japan to the USA and from Russia to South Africa.

It is worth noting that with the first conference in 2009 began a tradition of having a special post-conference issue of a journal with a focus on those topics that dominated the respective conference. Since 2009 these special issues appeared in: European

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The fifth shadow conference was held in late July 2017 in Warsaw (Poland) and was organized by the University of Warsaw and Group for Research in APplied Economics (GRAPE). During the conference, special focus was paid to issues related to informal labour.

A small number of papers presented at this conference were submitted for publication in this special section of International Tax and Public Finance. Eventually, four papers were singled out via the peer review process. They are briefly described below.

The first paper in the special section is by Piotr Dybka, Michał Kowalczyk, Bartosz Olesiński, Andrzej Torój and Marek Rozkrut (“Currency demand and MIMIC models: towards a structured hybrid method of measuring the shadow economy”). The authors focus on the controversies found in the dominant approaches used to estimate the size of the shadow economy, namely currency demand (CD) method and multiple indicators multiple causes (MIMIC) model. Next they propose a hybrid procedure which addresses the shortcomings of both the CD and MIMIC methods. Thanks to this procedure they are able to avoid some controversial steps applied in both methods and obtain estimates of the size of shadow economy for 43 countries. Most importantly, these estimates are comparable with the estimates published by statistical offices for these countries. This paper is a much needed contribution to the ongoing debate on methods used for estimating the size of shadow economy.

Ann-Sofie Kolm and Birthe Larsen present in their paper (“Underground activities and labour market performance”) a general equilibrium search-and-matching model with formal and informal sector. Their model includes employment protection legislation (EPL) and concealment costs and the authors want to use that model to explain why the tax evasion level is different between northern and southern European countries. The model is calibrated to data and simulated to show the impact of changes in these two features—the authors show that differences in EPL and concealment costs, and not differences in tax and punishment systems, are major factors explaining the different size of informal sector in the South and in the North.

In their empirical paper James Alm, Yongzheng Liu and Kewei Zhang (“Financial constraints and firm tax evasion”) focus on firm behaviour regarding tax evasion and try to investigate the influence of financial or credit constraints a firm faces on the extent of its tax evasion. They use data from the Business Environment and Enterprise Performance Survey and apply Ordinary Least Squares and Instrumental Variables methods. The authors show that more financially constrained firms are more likely to be involved in tax evasion activities as evasion helps the firms deal with financing issues created by financial constraints. They also discuss the channels through which financially constrained firms evade taxes with the main ones being a reduction in information disclosure in the banking system, conducting business in cash and lobbying the government for a lower probability of tax audit. The paper fills in an important gap in the literature on tax evasion which mostly focuses on the individual and not on the firm.

The last paper in the special section is authored by Athanasios Lapatinas, Anastasia Litina and Eftichios Sophocles Sartzetakis (“Environmental projects in the presence

of corruption”). Their model shows another example of a psychological driver for tax evasion, i.e. citizens observing politicians engaging in corruption and similar rent-seeking activities in the process of public funding of environmental projects. This waste of public resources, with a direct negative impact for environment quality, increases the propensity of citizens to also engage in rent-seeking activities in the form of tax evasion.

Last but not least we would like to thank: Sascha Hokamp and Aloys Prinz for awarding the organization of the conference in 2017 to us; the keynote speakers, Luigi Mittone and Johannes Koettl; the panelists of the discussion panel on statistical offices and their approach to the shadow economy, Manlio Calzaroni, Brugt Kazemier and Alicja Truszyńska; the Editors-in-Chief of International Tax and Public Finance, Ron Davies, Sara LaLumia and Kimberley Scharf for making this special section possible. Many thanks also to the authors of submitted papers and the referees—without their contribution this special section would not be possible.

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